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FISCAL IMPACT STATEMENT

LS 7018

BILL NUMBER: HB 1001

NOTE PREPARED: Jan 30, 2014

BILL AMENDED:

SUBJECT: Tax exemption for new personal property.

FIRST AUTHOR: Rep. Turner

FIRST SPONSOR: Sen. Hershman

BILL STATUS: As Passed House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill provides that a county income tax council may adopt an ordinance to exempt from property taxation any new business personal property (other than utility personal property) that is located in the county.

Effective Date: July 1, 2014.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary* - The business personal property tax returns for Pay 2013 were aged for ten years to simulate the change in gross AV, taking into consideration the effects of the 30% valuation floor and other adjustments, and assuming that taxpayers would not retire existing assets. Assuming that all counties adopt the exemption, over the ten year period, non-utility gross AV would decline by a minimum of \$2.4 B (out of a non-utility total gross AV of \$37 B). This amount is comparatively small because of the influence that the 30% floor has on the older, existing assets. If taxpayers retire older assets, then this AV reduction would be larger.

If all older assets are eventually retired, the maximum gross AV reduction over time could be as high as \$37 B (the current gross AV of non-utility business personal property). Corresponding net AV could decline by as much as \$31 B, after allowing for abatements, other deductions, and exemptions.

As new personal property is exempted from property taxation under this bill, property tax rates would increase. As a result, property taxes would begin to shift from owners of the exempt property to all other taxpayers and circuit breaker losses would rise. In addition, the levies of rate-controlled funds would be reduced. If the minimum estimated amount of gross AV is lost, then the overall tax shifts, circuit breaker losses, and rate-controlled levy losses could be minimal. However, if all of the non-utility personal property gross AV is eventually lost, then personal property taxpayers would save \$802 M, tax shifts to real property could be as much as \$276 M, circuit breaker losses could grow by \$428 M, and rate-controlled fund levies could fall by \$113 M. The final impact depends on county action and taxpayer behavior. County-level details of the estimated maximum impact appear at the end of this fiscal note.

Increased tax rates would also result in increased TIF revenue for real property TIFs. Revenue may rise or fall in personal property TIFs depending on the reduction in assessed value in the TIF allocation area vs. the tax rate increase.

The exemption could be effective as early as taxes payable in 2015. Taxpayers would not be required to file an application to receive the deduction.

The county income tax council currently exists in COIT-adopting counties and is comprised of the county and municipalities in the county. The votes on the income tax council are apportioned based on population where the county gets credit for the population in the unincorporated areas of the county. This bill would permit the same membership to adopt an exemption of all new non-utility business personal property, even if a county is not a COIT-adopting county.

Additional Information - According to the depreciation schedules from filed business personal property tax returns, the true tax value of new assets statewide was about \$3.7 B for taxes payable in 2013. This compares with the total true tax value of all assets in the depreciation schedule, statewide, of about \$30.6 B. (Some assets are not valued in the depreciation schedule. These include special tooling, commercial aircraft, and equipment not placed in service or permanently retired.)

Under current law and DLGF rule, business personal property is valued according to a depreciation schedule as specified in the rule. Most taxpayers list the cost of depreciable property in one of four “pools”, depending on the declared useful life of the property. A fifth pool is available for certain integrated steel mill and oil refinery/petrochemical property. Each pool has a different set of depreciation rates for each year of age of the property. The asset cost is multiplied by the appropriate “percent good” factor in the depreciation schedule to produce the total true tax value (TTV) of the assets. The TTV of all of a taxpayer’s depreciable property located in the same taxing district must be at least 30% of the total cost of the property (30% floor). The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of depreciable assets. Pool 5 filers are not subject to the 30% floor.

Each year as an asset ages, its cost is entered into a lower line on the depreciation schedule, which produces a lower true tax value for that asset (except in the second year). Many times, new property is acquired by the taxpayer and the addition of the new asset’s value offsets the decline in value of the existing assets. If new property is exempt under this bill, then the overall assessed value of personal property would begin to decline.

State Agencies Affected:

Local Agencies Affected: Local civil taxing units and school corporations in adopting counties.

Information Sources: LSA personal property database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.

Estimated Maximum Impact Over Time
Exemption for All New Non-Utility Business Personal Property Tax

		Net Tax Change After Circuit Breakers			Circuit Breaker Change	Rate-Cntrl Fund Gross Levy Loss
		Personal Property	Real Property	Net Total All Property		
01	Adams	-3,734,680	1,566,770	-2,167,910	1,270,410	724,860
02	Allen	-40,407,910	8,534,800	-31,873,110	25,271,790	4,843,430
03	Bartholomew	-14,343,020	7,744,550	-6,598,470	4,875,470	1,968,820
04	Benton	-637,920	375,180	-262,740	113,540	149,260
05	Blackford	-1,772,980	353,420	-1,419,560	1,267,630	209,480
06	Boone	-4,439,970	2,463,900	-1,976,070	1,057,630	574,120
07	Brown	-167,430	135,250	-32,180	0	34,010
08	Carroll	-1,398,920	598,800	-800,120	140,030	203,730
09	Cass	-3,967,430	1,277,820	-2,689,610	1,889,390	603,630
10	Clark	-10,336,930	2,839,170	-7,497,760	7,898,750	1,496,890
11	Clay	-1,243,940	899,850	-344,090	94,300	243,660
12	Clinton	-6,441,790	2,201,850	-4,239,940	3,296,860	923,670
13	Crawford	-837,560	188,130	-649,430	505,390	112,490
14	Daviess	-4,357,670	1,551,390	-2,806,280	803,500	630,410
15	Dearborn	-2,769,920	1,563,210	-1,206,710	887,460	483,390
16	Decatur	-6,419,030	2,262,850	-4,156,180	848,980	649,180
17	DeKalb	-10,409,740	4,809,780	-5,599,960	3,900,140	2,207,500
18	Delaware	-8,382,620	1,530,310	-6,852,310	5,834,350	1,238,460
19	Dubois	-5,664,260	2,847,480	-2,816,780	1,318,720	1,154,810
20	Elkhart	-24,210,710	5,355,410	-18,855,300	16,806,700	4,286,550
21	Fayette	-1,736,540	395,850	-1,340,690	1,027,700	303,950
22	Floyd	-5,358,890	2,952,400	-2,406,490	2,066,820	804,720
23	Fountain	-1,658,730	789,680	-869,050	187,190	235,250
24	Franklin	-663,620	439,040	-224,580	61,520	154,430
25	Fulton	-1,587,060	1,086,040	-501,020	230,700	270,910
26	Gibson	-13,465,630	4,024,090	-9,441,540	3,591,900	1,928,270
27	Grant	-9,819,450	2,931,460	-6,887,990	4,992,210	1,124,870
28	Greene	-1,317,710	633,000	-684,710	442,070	277,710
29	Hamilton	-19,331,370	8,648,670	-10,682,700	9,090,680	2,604,200
30	Hancock	-5,891,840	2,185,590	-3,706,250	1,923,650	880,410
31	Harrison	-1,519,140	1,208,070	-311,070	3,240	297,850
32	Hendricks	-12,853,280	4,709,060	-8,144,220	6,372,120	1,963,820
33	Henry	-2,567,630	937,660	-1,629,970	1,174,350	411,680
34	Howard	-30,200,400	5,227,990	-24,972,410	21,051,800	3,902,950
35	Huntington	-3,723,920	1,447,350	-2,276,570	2,111,850	553,960
36	Jackson	-6,136,090	3,715,820	-2,420,270	1,077,780	1,231,060
37	Jasper	-2,077,830	1,565,280	-512,550	320	594,620
38	Jay	-4,503,630	1,767,240	-2,736,390	1,723,310	753,870
39	Jefferson	-2,687,960	1,348,660	-1,339,300	947,590	526,010
40	Jennings	-2,740,720	926,600	-1,814,120	967,710	377,680
41	Johnson	-10,094,850	3,054,750	-7,040,100	5,465,990	1,454,010
42	Knox	-4,869,930	1,762,550	-3,107,380	2,856,450	668,200
43	Kosciusko	-9,213,720	5,665,850	-3,547,870	1,730,310	1,728,000
44	LaGrange	-2,031,580	1,319,460	-712,120	735,460	434,310
45	Lake	-87,236,340	31,153,590	-56,082,750	69,524,350	8,707,450
46	LaPorte	-9,696,760	5,369,880	-4,326,880	4,573,860	815,520

**Estimated Maximum Impact Over Time
Exemption for All New Non-Utility Business Personal Property Tax**

		Net Tax Change After Circuit Breakers			Circuit Breaker Change	Rate-Cntrl Fund Gross Levy Loss
County		Personal Property	Real Property	Net Total All Property		
47	Lawrence	-3,791,440	1,344,340	-2,447,100	1,948,090	614,900
48	Madison	-12,346,340	2,044,290	-10,302,050	8,152,730	1,391,500
49	Marion	-141,659,470	27,392,230	-114,267,240	88,249,010	16,851,070
50	Marshall	-5,280,640	2,375,480	-2,905,160	2,528,830	813,690
51	Martin	-798,340	542,790	-255,550	72,350	190,080
52	Miami	-2,025,550	984,770	-1,040,780	681,860	385,760
53	Monroe	-6,628,380	4,586,680	-2,041,700	699,380	1,139,250
54	Montgomery	-8,656,680	4,330,230	-4,326,450	2,393,730	1,448,700
55	Morgan	-1,819,140	1,502,560	-316,580	0	577,010
56	Newton	-1,554,850	1,037,190	-517,660	241,050	266,170
57	Noble	-7,048,630	3,781,820	-3,266,810	2,140,340	931,490
58	Ohio	-184,660	131,960	-52,700	0	52,580
59	Orange	-1,422,330	1,305,760	-116,570	199,570	312,300
60	Owen	-992,570	329,720	-662,850	503,230	161,470
61	Parke	-418,690	274,470	-144,220	14,230	138,380
62	Perry	-2,431,110	470,660	-1,960,450	635,560	256,680
63	Pike	-1,053,700	558,920	-494,780	215,160	276,510
64	Porter	-20,345,260	9,046,250	-11,299,010	9,518,400	2,851,580
65	Posey	-10,001,540	4,270,740	-5,730,800	1,191,320	3,466,370
66	Pulaski	-722,230	488,030	-234,200	0	234,170
67	Putnam	-3,236,920	2,992,560	-244,360	1,231,450	1,019,280
68	Randolph	-2,763,840	1,044,720	-1,719,120	1,106,490	426,570
69	Ripley	-1,743,730	1,285,670	-458,060	24,220	430,640
70	Rush	-1,694,850	683,440	-1,011,410	505,790	241,880
71	St. Joseph	-32,762,590	13,011,830	-19,750,760	24,860,840	3,952,200
72	Scott	-2,657,610	900,810	-1,756,800	1,091,590	345,000
73	Shelby	-7,729,390	3,417,260	-4,312,130	2,523,390	842,910
74	Spencer	-6,195,900	1,361,750	-4,834,150	80,360	443,890
75	Starke	-1,118,360	701,700	-416,660	268,750	133,100
76	Steuben	-2,724,490	2,004,580	-719,910	294,790	453,880
77	Sullivan	-3,244,330	1,445,860	-1,798,470	1,086,270	722,810
78	Switzerland	-334,850	212,820	-122,030	6,640	114,780
79	Tippecanoe	-26,908,620	12,718,010	-14,190,610	13,277,360	4,370,270
80	Tipton	-1,783,060	1,012,630	-770,430	510,300	295,610
81	Union	-565,450	358,420	-207,030	71,630	136,880
82	Vanderburgh	-24,874,380	4,743,980	-20,130,400	17,409,670	2,825,280
83	Vermillion	-2,714,620	932,070	-1,782,550	1,085,350	676,450
84	Vigo	-15,317,800	2,822,440	-12,495,360	10,237,500	2,286,420
85	Wabash	-3,396,050	1,573,180	-1,822,870	655,660	530,120
86	Warren	-636,380	456,010	-180,370	17,710	162,950
87	Warrick	-7,144,380	4,888,080	-2,256,300	675,350	1,893,250
88	Washington	-1,566,360	819,030	-747,330	491,140	271,570
89	Wayne	-8,951,370	1,456,910	-7,494,460	6,582,410	1,007,170
90	Wells	-2,495,580	1,939,360	-556,220	26,140	461,620
91	White	-2,051,340	1,374,870	-676,470	327,940	422,900
92	Whitley	-3,343,970	1,424,710	-1,919,260	280,640	451,060
		-802,066,820	276,747,140	-525,319,680	426,126,190	113,022,210